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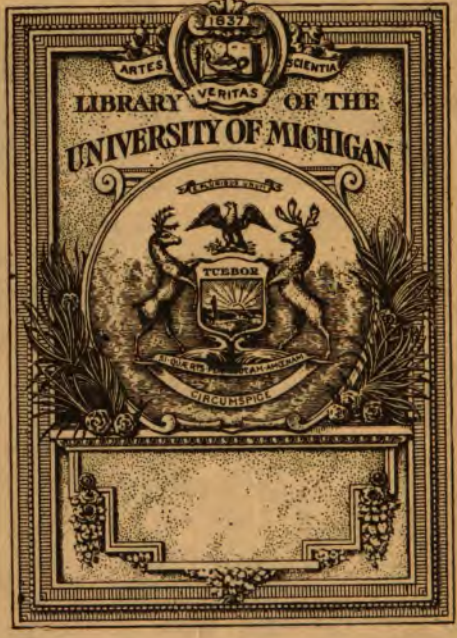
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Business Insurance

A Concise Description of the Adaptation of Life Insurance to Corporations, Business Firms, and Individuals

By

Forbes Lindsay

Author of "Efficiency," "Psychology of a Sale," "Practical Pointers," etc.

Price, $1.50

THE SPECTATOR COMPANY

CHICAGO OFFICE
INSURANCE EXCHANGE

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FOREWORD

DURING the past two years Business Insurance has been written in much greater volume than ever before, with a constant tendency to further expansion. This statement holds good, even though we exclude from consideration the extraordinarily large amount of personal insurance which has been taken in the same period for the purpose of facilitating the settlement of estates.

War conditions have created a new need on the part of corporations and co-partnerships for Life Insurance. The current changes in business affairs, the uncertainty as to future developments and the probability of widespread readjustments after the cessation of hostilities induce the adoption of safeguards and stabilizing measures, of which Life Insurance is one of the chief. The re-

sultant situation is one which affords unprecedented opportunities to the agent for profitable work in this branch of our business.

The technics of Business Insurance differ but little from those of domestic Life Insurance. The peculiar task of the agent in the case of the former consists in finding favorable prospects, discovering their particular needs for protection and formulating plans for meeting these needs through the medium of Life Insurance.

To aid the agent in acquiring the ability to perform this task efficiently is the primary purpose of the present volume. The principles which govern Business Insurance and typical situations in which it is indicated are illustrated by examples drawn from actual experience. This method is believed to be the most practical and effective.

An extremely fertile field for Business Insurance exists in the numerous small concerns to be found in every center of population. This field has not been cultivated to

any appreciable extent. It is hoped that managers and agents may be induced to pay greater attention to it by the suggestions contained in the chapters dealing with the subject.

The form letters comprising the Appendix have been extensively tested in the course of ten or more years. I can answer for their efficacy in creating an attitude of receptivity and facilitating the personal approach of the salesman by whom they may be followed up.

F. L.

Los Angeles,
September 1, 1918.

BUSINESS INSURANCE

CHAPTER I

WHAT IS BUSINESS INSURANCE?

THE latter-day tendency of commercial practice is to throw every possible safeguard around business enterprises. Speculative elements are eliminated or reduced to a minimum. Conservatism is the prevailing policy. Deferred liabilities are anticipated by timely reserves and provision is made for adverse contingencies.

It has been found by tried experience that all these buttresses of the business structure may be most certainly and economically erected on the basis of insurance in various forms. Thus, the conservative concern of today protects itself with fire, liability,

credit, fidelity, burglar, and perhaps other kinds of policies.

Primary Purpose of Insurance

The primary purpose of any kind of insurance is to furnish indemnity for the loss of a valuable asset. Strangely enough, business concerns insured against the less serious and more reparable class of casualties long before they awoke to an appreciation of life insurance as a means of compensation for what is generally the greatest mishap that may befall a corporation or firm. From the time of the marine loans of the Greeks, described by Demosthenes, commercial insurance in one form or another has been known, but it is only in recent years that the application of life insurance to the needs of business has come into practice. Since its introduction, however, this latest extension of insurance has become so widespread that it is safe to predict its ultimate adoption as generally as liability and, perhaps, fire insurance

The potentiality of life insurance as a factor in commercial stability may be inferred from a public utterance made a few years ago by an officer of one of our leading mercantile agencies. He declared that "during the past decade corporation and partnership insurance would have saved more than one million employers from sinking back into the ranks of the employed." This is a staggering statement, but it is supported by a report of another agency to the effect that one-third of all business failures are attributable to deaths for which no provision has been made. Another large proportion of business failures is doubtless occasioned by general financial stringency finding concerns unprovided with reserve resources, such as would be furnished by the loan values of life insurance policies.

Varied Purposes of Business Insurance

Life insurance is adapted to fill the greatest variety of business needs as experienced

by corporations, co-partnerships and individuals. Newly organized companies are beginning to look upon it as a well-nigh essential element of conservative plans and many of the largest and most firmly established concerns carry heavy lines of it. The magnitude of the amounts involved and the publicity attached to the cases has led to undue concentration of attention in this direction and caused an impression among many salesmen that the larger concerns compose the sole prospects for Business Insurance. As a matter of fact, the need for this form of protection is greatest among the comparatively small firms and partnerships. This is a practically unlimited and very promising field which is not worked to any appreciable extent.

The business purposes served by life insurance are so numerous and diversified as to defy classification. They range, through the greatest variety of protective functions from the security afforded for a modest loan

to the enormous group policy, affecting thousands of employés. The examples interspersed throughout the following pages will illustrate the most common applications of Business Insurance.

Business Insurance indirectly, but quite effectually embraces domestic insurance. The preservation of the business entails the welfare of the employer's home and probably of the homes of those who work for him. The familiar effects of commercial failure render the truth of this statement obvious. Indeed, in many instances a man's death would cause less financial loss to his family than the failure of the corporation or firm with which he is connected.

Business Insurance is both a conserving and a developing agency. It conserves by introducing an element of safety and reserve. It develops by affording capital and credit. Business Insurance is recognized as an asset and reported by the mercantile agencies as such; thus it enhances credit, creates confi-

dence, and establishes a reputation for conservatism. Of all forms of commercial insurance, life policies alone create reserve funds. The net cost may be reduced to less than that of any other kind of insurance. The life insurance account of many a business house shows a handsome profit in dollars and cents.

Corporation Insurance—The Business Buttress

It is now a common practice among corporations to insure the life of an officer upon whom, by reason of his business talent or technical knowledge, the prosperity of the company largely depends; or, an officer upon whom, on account of his executive ability or financial standing, the banking credit of the concern rests; or, an employé whose position, in the event of his death, it would be unusually difficult to fill.

It frequently happens that one man is a vital factor in the successful conduct of a corporation. The death of that man would ordinarily derange organization, impair credit,

decrease efficiency of operation, mar the company's prospects, and injure its standing with the public. At such a juncture, the payment of a substantial cash indemnity would minimize these conditions and put the corporation in a position to repair the effects of the loss.

Business Insurance is taken by corporations for the purpose of creating sinking funds for the retirement of bonds, to meet the depreciation of plant, to strengthen the company under changed conditions resulting from termination of patents, franchises, leases and various long-time contracts.

Business Insurance serves to protect minority stockholders against adverse developments following the premature death of a man holding a predominating interest in the corporation. In close corporations it is frequently employed to provide for the purchase of the stock of a deceased associate, and so prevent its falling into undesirable hands.

Business Insurance—The Silent Partner

Business Insurance is even more essential to the safeguarding of partnerships than of corporations. Associations of the former character frequently fail or retire from business on the death of one member. This because his knowledge or ability was the mainstay of the firm; or because his financial worth was the basis of its credit; or because his estate demanded a cash settlement which crippled its resources.

In the first case, the proceeds of an insurance policy would greatly lessen the difficulty of securing a satisfactory successor; in the second, it would counteract the effect of the loss by enlarging the financial resources; in the third, it would enable the liability to be discharged without impairment of the working capital.

Business Insurance is much more necessary to the small firm than to the larger one. Many concerns are running on the narrowest

margin of capital. The slightest shrinkage of this generally entails disaster. The records of commercial agencies show that nearly forty per cent. of failures among firms are due to deaths for which no provision has been made.

The credit of the small firm is often precarious and generally restricted; its capacity for expansion is limited; its future prosperity frequently depends upon a continuance of uniformly favorable circumstances. All these conditions may be mitigated or eradicated by Business Insurance.

Business Insurance—An Individual Utility

There are many ways in which life insurance will serve the business needs of the individual more effectively than any other medium. A few of these may be mentioned in this summary.

To furnish executors with ready cash for the settlement and administration of estates and so preclude the necessity, which so

frequently arises otherwise, of sacrificing property in a forced market.

To provide the money requisite to meet the inheritance tax. A fund for this purpose, invested in stable and easily convertible securities, would cost more and return less in most instances.

To cover mortgages and other indebtedness; to protect creditors, endorsers of paper, financial backers, and parties to contracts.

As an anchor to windward during periods of speculative venture or doubtful operations. Many men have investments, options, and other interests which depend for their value largely upon the personal qualities of themselves and would shrink more or less upon their death.

In numerous instances, men of unquestionable integrity and proved ability, but who lacked capital, have found that life insurance—the safeguard against loss by untimely death—has enabled them to secure ample means and credit for their undertak-

ings. There are concerns of limited capital, composed of young men whose reputation for ability and honesty is such as to inspire the utmost confidence in their ultimate success, provided death does not prevent the consummation of their plans. In these cases Business Insurance completes a basis for extensive credit, quite beyond the limit that would be justified by their material resources.

The foregoing is merely a preliminary survey of the principal purposes to which Business Insurance is applied. A more definite idea of its utility will be gained from the specific illustrations that are given in later pages.

The Concrete Form of Business Insurance

In its concrete form Business Insurance is practically the same as domestic or personal insurance. The difference lies in application, not in material character. The policy which the corporation carries on its president,

John Doe, is in form almost exactly the same as that which he carries for the benefit of his wife and children. A few special conditions may be inserted in the former to meet the peculiar relations of insured and beneficiary under Business Insurance. Even in the matter of effect there is a similarity that is commonly overlooked. As I have already pointed out, Business Insurance, with very rare exceptions, embraces domestic insurance. On the permanency of the great factory depends the survival of hundreds of homes; on the stability of the small concern hinges the welfare of the partners' families; the ability of the estate to discharge the deceased's obligations necessarily affects the interests of his heirs.

CHAPTER II

QUALIFICATIONS FOR SELLING BUSINESS INSURANCE

For the purpose of this chapter I shall make a broad division of Business Insurance into (1) that which is placed with corporations and partnerships in large amounts and (2) that which is placed with partnerships and individuals in comparatively small amounts. Qualities which are necessary to success in working one class are not essential in the other.

The former of our divisions represents the most lucrative line of life insurance salesmanship. The agent has many inducements to specialize in it. Business Insurance is a comparatively new form of protection. It has the attraction of novelty and its discussion is more interesting to agent and pros-

pect than the discussion of personal insurance. It touches the prospect where he is most susceptible—in the consideration of matters relating to his business prosperity. It affords the agent scope for new methods and new arguments.

Business Insurance necessarily involves larger amounts—case for case—than does domestic insurance. The premiums under it are more readily collected, and the renewals are more persistent. There is relatively less work and less waste of time involved in writing large policies. They are placed with men of affairs who are accustomed to thinking with decision and reaching their conclusions promptly.

Special Qualifications Necessary

But, if the rewards of success in writing large business are rich, the difficulties are greater and the disappointments deeper than ordinary. Consequently, before discussing methods of working this kind of Business

Insurance it will be wise to consider the *advisability* of doing so.

A distinct class of men must be approached for large policies and a distinct set of qualities is necessary in the agent to approach them with success. The man who possesses these special qualifications should assuredly seek to write big business. But the man who is deficient in them cannot do worse than to make the attempt. I have known several agents, who had been highly successful whilst working within the limits of their capacities, to ruin their careers by going beyond their depth.

Now, as to your personal concern, let me ask you to answer the following questions frankly. Are you familiar with general business methods and principles? Have you any knowledge of corporate and partnership law, of banking and credits? Do you possess what may be called the business sense? Are you accustomed to meeting and talking to men of affairs on an equal footing?

Unless you can reply affirmatively to these questions it would be decidedly inadvisable for you to attempt specializing in the class of Business Insurance involving large amounts. In this line of work, business sense and knowledge are more important than ability as a life insurance salesman. In the absence of the former qualities, no degree of expertness in the latter capacity will suffice to insure success.

Initiative an Essential

Big deals in Business Insurance cannot be put through without the exercise on the part of the agent of initiative and imagination along practical lines. Whilst most men of affairs are more or less familiar with corporation and partnership insurance, comparatively few have seriously considered that form of protection in connection with their business interests. Nine out of ten men recognize the need of personal life insurance

but you will seldom encounter one who feels the want of it in his business. Education in the latter direction is only just beginning. You must perceive and demonstrate the peculiar need, even in the most obvious instances. And ability of a peculiar kind is required to do this.

Let me illustrate this point, which is of the utmost consequence.

In one of our large cities was a firm of "bankers and stock brokers" composed of a senior partner (whose personal fortune of several millions furnished the firm's capital and credit), and five junior members who had but small interests. The chief business of the firm consisted of underwriting or buying up entire issues of stocks and bonds, a single transaction often representing millions of dollars.

As an indication of the rarity of the particular faculty we are considering—that of perceiving a genuine need of Business Insurance and analyzing it—I may say that

scores of life-insurance agents canvassed the head of this concern unsuccessfully for personal insurance before one broached the proposition of Business Insurance. The incident further illustrates the fact that the most obvious need of this kind is commonly overlooked by shrewd business men.

The agent who recognized the peculiar conditions of the case, pointed out to the junior members the danger of disaster to themselves following the premature death of the senior member. His wealth had been derived from marriage and no provision existed against the withdrawal of his interest after his death. The heirs of a deceased partner in a manufacturing or mercantile concern have less inducement to realize upon his interest, because the business can usually be continued successfully upon settled lines. With a financial house, such as that in question, the situation is entirely different. The business is speculative and dependent upon a special quality of judgment. Deci-

sion on deals is not regulated by a fixed policy, but each transaction presents peculiar problems and is considered on its merits.

In this case the greater part of the experience and ability upon which the success of the house rested were centered in its head. Should he die, it was highly improbable that his widow would have sufficient confidence in the junior members to entrust them with the use of her money. And, even though she should do so, the credit of the firm would be seriously shaken by the loss of its guiding genius. The argument was strengthened by the suggestion that the withdrawal of capital might occur at a time when the concern had just contracted heavy liabilities.

This case was closed in less than two weeks by the placing of $500,000 on the life of the senior member. He appreciated the fact that the insurance would facilitate the liquidation of his interest, and assumed his share of the premium.

I will cite another case of an entirely different kind, but illustrative of the same point. These and all other illustrations given are typical; that is to say, each is representative of a class of cases and so should afford practical suggestions to the agent working in the field of large Business Insurance.

A certain manufacturing corporation installed a new type of machine at a cost of about $275,000. The circumstance came under the observation of an agent who saw in it ground for a Business Insurance proposition. He ascertained that the life of the machine in question was approximately twelve years, under favorable conditions. At the same time he learned that extensive renovation of the plant would be necessary in about ten years.

His proposition embraced a precise statement of present conditions and a logical estimate of future contingencies. It resulted in his placing $400,000 of Ten-year Endowment insurance as a substitute for the sink-

ing fund which the company had maintained for years.

Fortitude and Patience Required

The man who would make a specialty of this kind of insurance must have the fortitude and philosophy to withstand bitter disappointments. He cannot hope to escape them. Hard and protracted effort, after careful preparation, will sometimes go for naught in cases that fail of closing by a hair's breadth. He must have infinite patience. In most instances, Business Insurance deals of considerable magnitude are long drawn out and impeded by vexatious obstacles. A difficulty is hardly removed when a fresh and unexpected one, takes its place. The objections of this partner are overcome only to be succeeded by the opposition of another. And so it goes in the course of most Business Insurance negotiations. Cheerful, optimistic, and painstaking perseverance is absolutely necessary.

Large applications are secured only at

considerable intervals, even by the most successful writers. They fill the gaps with comparatively small cases. A man who pays for more than $1,000,000 of business yearly has declared that he writes ten policies of less than $50,000 as against every one of that amount and over. If properly pursued, specialization in Business Insurance should facilitate the writing of personal insurance. An agent wrote two partners for $200,000, and within a few weeks took applications in their establishment for policies in no instance exceeding $10,000, but amounting in the aggregate to $280,000. Another agent placed $100,000 on the proprietors of a dry goods store and nearly twice as much among their employes. The by-product was garnered in much less time than the Business Insurance deal occupied. The capable writer will never fail to use all the influence that accrues to him from closing big cases to secure smaller business. It is invariably to be had for the working.

Business Insurance in Moderate Amounts

Now, you may altogether lack aptitude for the former of our two divisions of Business Insurance and possess all the necessary qualifications for success in the other division. Indeed, the latter calls for little, if anything, more than the ordinary qualities of life insurance salesmanship.

Corporations and large firms considering life insurance are influenced purely by business considerations. Sentiment has no proper place in your presentation or arguments. But when you come to deal with the two partners running a small drug store or the man carrying on a corner grocery, the situation is entirely different.

In the cases which come within our second division, Business Insurance involves domestic insurance to a marked extent. The home is much more closely connected with the business, and much more dependent upon it, than in the former class of cases.

In working small Business Insurance you will almost invariably find scope for the same line of argument as you employ in canvassing personal insurance.

Jones and Brown, let us call them, were two young mechanics working in a large Philadelphia factory. Both were married and they were equally skilled. Combining their savings, they opened a machine shop in partnership with $11,000 capital, every cent of which was immediately absorbed in the business. So successful were they that, deducting barely enough for the support of their families, they applied all their profits to the enlargement of the plant. Things went swimmingly with them for five years, or more, when Brown was killed through the carelessness of one of his own workmen. His only life insurance was a certificate in a fraternal order, which hardly more than paid funeral expenses. Mrs. Brown, with a brood of little ones to look after, insisted on the immediate conversion into cash of her inter-

est in the machine shop. Under a forced sale it went for a mere song and within eighteen months Brown's widow was partially dependent on charity.

The sudden destruction of his prosperity and plans for the future broke Jones' spirit. He went on a protracted spree and wound up in the alcoholic ward of a hospital. Nine months after his failure he returned to his old job with a fraction of the money he had brought away from it. He soon became a melancholic and a "periodical." By degrees he lost his skill,—and, indeed, all value as a workman—and ultimately died in absolute poverty.

Now, here were two homes ruined for lack of Business Insurance. Two policies of $5,000 each would have saved the situation. With the proceeds of one, Jones might have satisfied the legal demands of his partner's widow and retained a profitable plant entirely in his own hands.

Time and again these young men declined

to take domestic insurance on the score that they could do much better with the money in their business and that it would provide for their families. Partnership insurance was never, I believe, broached to them, but so concerned were they for the prosperity of their business that it is almost certain that a suggestion of the possibility of what actually happened would have induced them to take out policies payable to the firm.

On the other hand, here, in brief, is the story of how disaster was avoided by prevision. Three young salesmen joined in starting a business with very little capital. In a few years one of them died. The remaining partners could stand the loss of their former associate's services, but they were not in a position to spare a cent from the business. When the executors of the deceased member demanded a settlement of his interest the young firm must have gone to the wall but for the fact that at the outset the partners had displayed the forethought to each take

out life insurance payable to the concern. As it was, the claim of the dead man's heirs was discharged with the money received from the insurance company.

A few years later one of the remaining partners died and the returns from his policy enabled the survivor to get the entire business into his hands and organize the well-known house of George D. Barnard and Co., of Saint Louis.

An agent, working under my direction, once told me of his failure, after hard efforts, to write personal insurance on a bachelor who, in partnership with two other young men, was successfully running a small trunk factory. At my instigation the agent ascertained that the firm carried no Business Insurance, that the partners had no resources outside of the business, that two of them were married and had only small personal policies on their lives.

I instructed the agent to make a proposition for partnership insurance, impressing

upon his former prospect that his business prosperity might be shattered by the premature death of one of his associates, and upon the married men that the conservation of their homes depended upon the stability of the business.

A few days' work resulted in policies of $10,000 each on three men who were all unresponsive to propositions for personal insurance.

A middle-aged man supported an invalid wife and two daughters by conducting a school and stationery store. He saw an opportunity for extension by adding to his business what might be called "children's supplies"—candy, toys, and what not. With this idea he came to my office to secure the cash surrender value—in amount only a few hundred dollars—of a $2000 policy, his sole insurance. Instead of complying with his request, I went with him to the credit men of two jobbing houses who agreed to put in the stocks he desired on the condition

of his taking out a $5,000 policy payable to his business.

I may add that this man prospered greatly and about ten years later owned the building which contained his residence and store, besides having a snug bank account. At the time I encountered him it is questionable whether he would or could have made any considerable addition to his personal protection. As it was, the business policy enabled him to extend his business and the extension of his business enabled him to pay the premiums on the policy.

Illustrations might be cited ad infinitum to substantiate the statement that a practically unlimited field for working small Business Insurance exists. It is hardly touched and may be entered successfully by any capable life insurance agent, without special qualifications or training. In fact, every agent who canvasses among the smaller classes of partnerships and tradesmen should be constantly on the *qui vive* for opportu-

nities to place Business Insurance. It can often be written where the proposition for domestic insurance fails of effect.

Another extremely broad field for Business Insurance is to be found among farmers. The increasing tendency to employ mechanical energy is creating new liabilities. Year by year expanding millions are being invested in threshing and mowing machines, tractors, power plows, and various other agricultural appliances, not to mention innumerable passenger automobiles.

The farmer can be educated to an appreciation of the need for short-term Endowment insurance to serve as a sinking fund for the purpose of forestalling depreciation of plant and providing means for future extension of operations. The application of this form of protection to cover bank loans and mortgages is no new idea to the farmer, but should be urged upon his attention more frequently than is the case at present.

CHAPTER III

BUSINESS INSURANCE FOR CORPORATIONS, FIRMS, AND INDIVIDUALS

THERE are a thousand and one ways in which life insurance may be applied to the needs of business, but they fall into ten or twelve groups. These have been mentioned mostly in the first chapter.

The illustrations of which this chapter is composed are designed to exemplify the underlying principles of Business Insurance for the benefit of the agent and also to furnish suggestive information to the prospective purchaser. Most men are alive to the utility of Business Insurance in a general way, but comparatively few appreciate its application to their particular needs. It is too new as yet to have been considered deeply, except in rare instances. Thus it happens that nine

times in ten the salesman has to originate the proposition, even when the necessity for life insurance is fairly obvious.

The most common and simple use of life insurance to provide indemnity for the loss of a valuable life requires no more than passing mention. Conspicuous illustrations of its practical effect were furnished by the payment of the Peavy and Shevlin claims in recent years. The cases which will be cited indicate less obvious ways of applying life insurance to business purposes.

Uses of Business Insurance by Corporations

Life insurance is frequently made to serve the purpose of a sinking fund to provide against depreciation of plant and equipment, or to redeem bonds. Even though such an object may furnish a strong primary motive, the protection against loss by death is always a valuable consideration. Taking the two utilities into account, Business Insur-

ance is more effective and economical than the ordinary sinking fund or any other medium which might be employed.

In most situations there is opportunity to play on more than one motive. Often it happens that the ground on which a proposition has been advanced proves too weak to sustain it, whereas, the case is closed on the strength of a reason which the salesman ignored or underestimated. Hence the necessity of securing all possible information about a concern and weighing every probable motive in preparation for a canvass.

A few years ago a company organized a chain of tire factories, with a high-priced manager. A capable salesman presented a proposition to insure the valuable official. It interested the directors, but failed to get the business. Shortly afterward another agent laid a proposition before them to insure the general manager and at the same time to create a sinking fund to anticipate depreciation of plant and possible adverse effect

of expiry of a leased patent. He placed a large Endowment policy.

The writer is aware of several instances in which stockholders have insisted on the precaution of life insurance. In one instance the vice-president and general manager of a large manufacturing concern was insured in an amount equal to the entire issue of stock at the instigation of the holders of a majority of it, and this in the face of the president's opposition. Here is a side from which the agent may occasionally approach the matter with greater chance of success than by a direct appeal to the officers, but extreme tact must be employed in such circumstances.

It is well known that bonds and stocks with life insurance behind them are, in many instances, more attractive to the investing public and to underwriters than otherwise. A real estate corporation of Los Angeles found that the sale of its bonds, issued against the erection of a business block, was

greatly facilitated by employing Endowment policies as a specific appropriation for their redemption.

Not infrequently with new corporations the prospect of success depends in a great degree upon one man. In such case, no matter how favorable the conditions, the enterprise is speculative to the extent that the essential man's life is an indeterminate factor.

Some years ago a company was organized in Syracuse to exploit the patented invention of a man who was charged with the management of the business. The first offerings of stock met with the objection that, in the event of the early death of the inventor, whose services were chiefly valuable on account of expert knowledge of a secret process, the enterprise might collapse, and would certainly be greatly injured. At the suggestion of a life-insurance agent, a policy of $500,000 was placed upon the life of the man whose technical ability was the chief

asset of the concern, and thereafter the stock sale moved as rapidly as could be wished.

Every exceptionally able man represents brain power which is of special value to others than himself. Sometimes his ability is a vital factor in the prosperity of several concerns. Every large city contains several such men and the thoughtful agent should be able to find logical grounds for linking them up with substantial amounts of Business Insurance. The writer placed a large policy upon the life of a man who was a director in five corporations, but not an officer in either. However, each of the companies recognized the fact that it would have suffered seriously by the loss of his advice in the direction of its affairs.

While Business Insurance is never taken by corporations for the sole purpose of creating collateral security, its utility in this respect is often an influencing factor and should not be overlooked by the salesman in presenting his arguments. Numerous

concerns have been saved from bankruptcy by loans against their life insurance, secured at moderate interest in times of monetary stringency and high rates.

About twenty years ago, when Business Insurance was quite a novelty, a newly formed corporation took out $100,000 in an Endowment policy on its president, but with the specific purpose of meeting the obligation created by an issue of twenty-year bonds to the same amount. The annual premium was somewhat less than $5,000.

When the insurance had been running about ten years the concern fell upon evil days. It needed money urgently, but had no collateral with which to satisfy the banks. Furthermore, there was a grave chance that in the efforts to raise a loan its creditors might be made aware of the state of affairs. The officers of the company were in despair when their head bookkeeper reminded them that they only needed to take their insurance policy across the street in order to borrow

$40,000, and that without making the transaction in any degree public.

The loan was made and tided the concern over its difficulties. A year later the president lost his life in a hotel fire and the corporation received $60,000, after canceling its debt.

Corporations occasionally take out life insurance to cover special hazards of a temporary nature.

A construction company, which had a large Government contract in the Philippines, placed a heavy policy on the life of the engineer employed by it to carry out the work. In the event of his death during the progress of the operation, the company would have had difficulty in filling his place and must have lost valuable time. I may add that, although the insurance transaction was quickly effected at the suggestion of an agent, it appeared that the corporation had not realized the hazard until it was pointed out.

A publishing house contracted with Commodore Peary, before his last voyage to the Arctic, for the publication of a book upon his return. Had the explorer lost his life in the venture, the publishers would have been out a considerable sum on account of preparation, advertising, and other expenses, not to mention the prospective profit from the publication. This created a substantial insurable interest which was met by a good-sized policy.

Mention has been made of the function of life insurance as collateral in times of difficulty. The loan value may render valuable service under other conditions. As an asset it increases credit and furnishes the means of expansion.

A large and prosperous Pennsylvania corporation owes its remarkable success largely to life insurance. Twelve years ago, when it was a comparatively small concern, an exceptional opportunity to extend its business occurred. All the company's borrowing

resources were equal to only two-thirds of the capital necessary. The balance was furnished by the loan values of some policies of Business Insurance which it carried.

Use of Business Insurance by Co-Partnerships

In this sub-division we may properly include close corporations, which are much in the nature of co-partnerships. A close corporation is one the stock of which is retained in a few hands, and usually some distinct advantage is gained by the arrangement. In most concerns of this character desirable conditions exist which can best be conserved through the medium of Business Insurance. In the absence of a protective agreement between stockholders, life insurance is always advisable as a safeguard against the holdings of a deceased associate falling into unfavorable ownership. The following is a case where life insurance, had it been employed, might have prevented a commercial wreck.

A close corporation, doing a highly profitable business in the manufacture of a specialty, had a buying and selling agreement, designed to keep the stock in the hands of the holders, one of whom owned a majority. The other two considered themselves effectively protected, as they were, until death intervened.

The possessor of the majority interest, who happened to be the youngest of the trio, went to a football game in a light overcoat. A week later his widow inherited the stock, the minority holders having been unable to exercise their option of purchase. About a year afterwards the controlling interest in the concern passed to a smart young man, who married the widow. He was not satisfied with an eighteen per cent. dividend and instituted a "more enterprising" management, with the result that a receiver was appointed in less than three years' time. It is hardly necessary to point out that had the minority stockholders carried enough

life insurance on their associate to retire his widow's interest, they would have preserved for themselves a fine business.

Business Insurance in connection with close corporations will most commonly take the form of protection for minority stockholders and, as the prospective benefit will almost entirely accrue to themselves, they are fairly charged with the assumption of the whole premium expense. The following case illustrates a situation which, with slight modifications, perhaps, is frequently found in close corporations.

A very prosperous jobbing concern was owned by three individuals. One of these, a capitalist of about sixty years of age, held sixty per cent. of the stock. Thirty per cent. of it was in the hands of the man upon whose management the business depended. He was at middle age, giving the best years of his life to the concern, with a chance of being thrown out of his position in case of the stock control passing to adverse owner-

ship. It was easy to impress him with the advisability of carrying insurance on the life of the principal stockholder, but his means would not permit of his paying the premium on a $60,000 policy. Ultimately an arrangement was effected by which he secured an option on $30,000 of the majority stock in the case of the holder's death, and placed a policy of that amount on his life. It became a claim within five months.

Partnership life insurance is most frequently taken for the purpose of satisfying the demands of the heirs of a deceased member of the firm, without impairment of its capital. For lack of this resource, many a prosperous or promising business has been compelled to dissolve On the other hand, when life insurance is carried in sufficient amount to discharge all claims arising from the death of a partner, the firm enjoys a decidedly favorable position. The business may be continued with the enlarged share of profits incident to the reduction of member-

ship, or a new partner may be taken in with additional capital.

Instances have already been given of the effect of life insurance in this connection. There are other, less common but equally important purposes that it fills in partnership affairs. Foremost among these is the enhancement of credit.

Two young partners in a San Francisco jobbing house, carried on their business successfully for several years on a small capital, but were hampered in extending it by limit of credit. An agent assured them that the situation might be relieved by their taking partnership insurance. They were sceptical and the agent undertook to plead their cause with the wholesale house from which they obtained the major part of their goods. The credit man frankly told the intermediary that he was fully satisfied of the integrity and ability of the young men in question, but he had grave doubts whether the firm would weather the death of either

member, both of whom were necessary to its success. "Death is the only contingency that you fear?" asked the agent. "That is all," was the answer. "Then, if each takes a $10,000 policy payable to the firm, you will give them the extension of credit they desire?" An affirmative reply was made, the insurance was placed and the credit extended.

A newly organized firm, with no more than enough capital to launch its business fairly, desired to lease premises for a purpose which would necessitate extensive and costly alteration and would render them suitable to the needs of but few tenants. In view of this condition the owner was reluctant to rent to the firm. Here, again, a life-insurance agent solved the problem. He learned from the proprietor of the property that he was satisfied with the prospects of the new firm and the ability of its members, but he feared unforeseen contingencies which, upon discussion, narrowed down to the chance of

premature death. A policy of partnership insurance satisfied him and the deal was consummated.

A concern took in a "special partner" with capital, in order to effect a profitable extension of the business but could not arrange the usual stated time agreement. The uncertainty involved in the situation caused anxiety to the original members of the firm, which they expressed to their banker. He advised them to protect themselves with insurance on the life of the "special partner," which they did. He withdrew from the enterprise at the end of ten years and at that time the cash value of the policy, which had operated as a sinking fund in the meanwhile, was of substantial service to the firm in readjusting its affairs.

It is becoming common practice with banks to require firms to carry life insurance in order to support their lines of credit. Any agent specializing in Business Insurance will find it advantageous to obtain from local

bankers expressions of opinion on this matter.

One of the less usual forms of credit insurance employed by firms is that of using it to cover "bad debts."

A railroad contractor failed with ability to settle on no better basis than twenty cents on the dollar. A firm, which was one of his largest creditors, instead of compounding with him, insured his life for a sum that, seven years later, discharged the debt at a handsome rate of interest.

Some years ago, one of the leading promoters of the country became insolvent, with heavy liabilities. Several concerns placed insurance on his life to the extent of about $300,000. The policies became claims before ten premiums had been paid on them.

Use of Business Insurance by Individuals

Under this sub-head may be included charitable bequests and endowments. Some-

times a number of individuals are associated in the promotion of the purpose for which life insurance is employed. In recent years there have been many instances of graduating classes taking out life insurance for the benefit of their alma mater.

Members of religious congregations sometimes carry Endowment policies for the purpose of redeeming mortgages on church property. One of the leading churches in a large city served a wealthy parish and at the same time maintained several expensive charities in outlying districts. Many years ago it became evident that the residence section from which the church drew its congregation was gradually losing its fashionable character and that the migration of rich persons from the neighborhood would ultimately deprive the church of the income necessary to support its various beneficences. In order to mitigate the effects of this development, certain of the parishioners insured themselves under policies of which the pro-

ceeds, in several instances, have already been paid to the trustees of the church.

A man of means had willed $150,000 to a boys' home in which he was deeply interested. It was suggesed to him that he might make his donation larger without diverting the principal from his heirs. The agent who advanced the proposition induced the philanthropist to take $250,000 of life insurance for the benefit of the home and appropriate the interest on that sum to the payment of the premiums.

The action of J. P. Morgan in securing $2,500,000 of life insurance for the purpose of facilitating the settlement of his estate must be fresh in the minds of my readers. A still more recent illustration of individual Business Insurance is that of Judge Rosenwald of Chicago who added $2,000,000 of life insurance to his line for the purpose of providing his executors with a liquid asset to meet the inheritance taxes and other demands upon his estate.

The lack of such provision often compels executors to realize upon assets at great sacrifice for the sake of obtaining ready cash. The Campbell estate of St. Louis affords an illustration in point. The proceeds of a $500,000 policy would have sufficed to maintain the values in properties which, for lack of available funds, shrank by many millions. Twenty-one States have unsatisfied claims against the Flagler estate. The case of Miller & Lux in California must be fresh in the minds of my readers. Millions of dollars were lost by the compulsory sale of valuable property in a depressed market, in order to realize ready money.

Large loans are sometimes made to persons who have nothing but their character and ability to offer as security. In such cases the one dangerous contingency is death before the realization of success. The safeguard for this hazard is life insurance.

It was under such conditions that S. S. Harbison founded the Harbison-Walker

Refractories Company with money borrowed from Henry Phipps on the security of a life-insurance policy.

Men whose business is of a speculative nature have special need of protecting their estates with life insurance. They usually put a high valuation on themselves, which furnishes an excellent argument for making provision against the possibility of their affairs being suddenly deprived of their expert direction.

An agent made this point effectively in the case of a real estate operator who always had options and undeveloped property on hand. A policy of $100,000 was sold within twenty minutes by merely suggesting that the values in these transient holdings depended largely upon the ability and reputation of the dealer. A similar argument resulted in the placing of a larger amount of life insurance upon a man who speculated in oil lands.

The collateral value of life-insurance poli-

cies is generally a weighty consideration with individuals engaged in speculative businesses.

The writer once delivered a $25,000 Fifteen-year Endowment to an operator on the New York Stock Exchange who stated that he carried nearly $200,000 of similar insurance, mainly because it represented cash which was easily available when money could be borrowed on other securities only at high rates of interest.

The individual in modest circumstances often has need of Business Insurance to cover mortgages and other liabilities. Some agents find this kind of business a profitable line of specialization, getting their prospects from the public records and from leads furnished by bank employés.

CHAPTER IV

POLICY FORMS FOR BUSINESS INSURANCE

In general there are but two forms on which Business Insurance should be written, Ordinary Life and Endowment. Exceptions to this rule will be noted.

You may quite properly advise the individual or small concern of limited means and restricted opportunities for investment to take a Limited Payment policy. In the majority of instances the money represented by the difference in the premiums would not be turned to profitable account in case the lower cost policy were taken.

With the corporation or substantial firm the situation is different. Business Insurance is necessarily a charge against the business. The money applied to the payment

of premiums must be withdrawn from the working capital. So far as the mere investment is concerned, the transfer involves a loss, for it is safe to say that every going concern can secure better returns from money engaged in its business than an insurance company can derive from the investment of its assets. Consequently, no more money should be appropriated to Business Insurance than is absolutely necessary to effect the purpose in view.

In the case of a small partnership, where life insurance is made to serve the combined purpose of business and domestic protection, the agent may properly act on the principles that govern him in writing ordinary individual applications. Under such circumstances a twenty-payment Life is frequently more attractive than an Ordinary Life policy and the difference in the premiums is so small as to exert no appreciable effect on the business

In this connection it may be well to draw

attention to a point quite commonly overlooked by agents writing this class of business. When Business Insurance is written with the widows of partners as the ultimate beneficiaries, it may take the form of Income policies. That is to say, if Brown and Smith each take policies for the specific purpose of discharging the claim against the business of either's widow, Monthly Income insurance may be employed as effectively as any other form.

There are two general purposes for which Business Insurance is carried: 1. To furnish indemnity for death; 2. To act as a sinking fund. The former is most satisfactorily effected by Ordinary Life, and the latter by Endowment, insurance.

Term Policies for Business Insurance

On the principle that a concern should not put more money than is necessary into life insurance, a Term policy may be recommended when it is practically certain that

the protection will not be needed beyond a short period. This is rarely the case. More often than not, firms and corporations which have taken Term insurance with this idea, have found themselves at the end of the period with the need still existent and sometimes increased. In such circumstances conversion can only be effected at an increase of cost. Whenever possible, it should be made "as of original date."

Every agent of sufficient experience to venture into the field of Business Insurance must be familiar with the general arguments against Term insurance. They apply to business concerns equally with individuals.

I have on several occasions avoided Term insurance by a plan which I believe to be original. Appealing as it does to the love of gain and the love of gambling which are inherent in most men, it is easier to carry out than might be supposed.

More than twenty years ago I took the application of a hotel company for $20,000

of Term insurance on the life of its manager. My utmost efforts failed to induce the directors to change the form of the policy. I then suggested to the manager that he should take out a Twenty-payment Life, payable to the company, in place of the Term contract, the policy to revert to him in the event of his outliving the period, and the company to allow him the amount of the Term premium yearly. Of course, it was pointed out to him that he ran a risk of loss to his estate in the event of his death during the twenty years.

The arrangement was maintained for the entire period, at the end of which the insured matured the most profitable policy I ever heard of.

On another occasion five officers of a corporation were insured by it under Ten-year Term policies. I induced one of them, a young unmarried man of means, to take a Ten-year Endowment under a similar arrangement to the foregoing.

Joint Policies for Business Insurance

The idea seems to be quite extensively entertained among agents that Joint policies are especially adapted to Business Insurance and, in fact, devised for use in that connection. The truth is that Joint policies are distinctly disadvantageous as compared with Single policies. The former should be recommended *only when the premiums on the latter are more than the concern can afford to lay out.*

Most companies place a limit on the number of lives which may be covered by a Joint contract. Few will include more than three risks in one policy and some no more than two. In all cases the insurance is restricted to the payment of one claim.

These limitations need occasion no difficulty. Even when three or more lives are involved the insurance may readily be adjusted under two-life contracts. To illustrate: Three partners are to be insured under

Joint policies for $10,000 each, their ages being 58, 42 and 40. They are paired in the following combinations: 58–42; 58–40; 42–40; and three $5,000 policies are issued. The arrangement differs from the three-life contract in the important respect that, while a death entails the discontinuance of two policies, it leaves a third in the amount of $5,000, covering the survivors.

It will occasionally happen that a larger amount is required on one individual of a group than upon the others. For example: a corporation desires to insure its president for $20,000 and four other officers for $10,000 each. The object is effected by issuing three joint policies of $10,000 each on two lives combined, as follows: 56–29; 56–37; 50–42. Note that the death of either of the insured will leave, at least, one of the others uncovered and may necessitate a complete readjustment of the protection.

This disorganization of the concern's insurance protection, following the payment of

a claim, is one of the chief drawbacks to joint policies. I have in mind a case in which it worked a serious disadvantage.

Two men, who constituted a wholesale firm, were insured under a joint policy of $50,000. In the course of time they admitted to junior partnership two employes. Shortly afterwards one of the original partners died. The claim was paid under the firm's policy, leaving the survivor without Business Insurance.

The ensuing situation was as follows: The senior member of the house, a man of fifty-nine, owned a largely preponderating interest in the business. The junior members faced the possibility of remaining in subordinate positions after the death of the head. He was willing to facilitate the reversion of his interest to them and it was agreed that they should make provision for acquiring it by placing $100,000 of insurance on his life. But it transpired that he was uninsurable.

Had the firm's insurance been in the form of single policies this difficulty would have been obviated in a large measure by the continuance of a $50,000 policy on the life of the surviving member of the original partnership.

The foregoing suggests another disadvantage attaching to joint insurance. When a negotiation has been carried through on this basis, it not infrequently falls to the ground, in the last stage, on account of one of the applicants proving unacceptable upon the form suggested. The impaired life may be insurable under a sub-standard policy, but you will probably find your prospects unwilling to consider the entirely different proposition which it will be necessary to put forward.

When such an obstruction arises in the case of separate applications, several ways out of the difficulty are available. An under-average policy may be obtainable. If not, the impaired life may be covered by insur-

ance obtained when in good health, and this may be assigned to the concern. More than one such adjustment has been arranged by the writer. In one peculiar instance the members of a firm actually assumed the ridiculous liability of themselves insuring the life of a rejected associate. They did this on the basis of a Ten-year Endowment at the regular rate and, as it happened, made a good thing of it, a fact which they delighted in citing as evidence of their shrewdness.

A joint policy is the practical equivalent of a regular policy on the eldest life and term insurance on the others. As a consequence, the cash values are a little more than those of a single policy at the highest age on the form employed. For instance, three partners, aged 52, 47 and 42 are insured under a joint Twenty-year Endowment. The premium is virtually a compound of that for the Endowment at age 52 and Twenty-year Term policies at ages 47 and 42. The cash value in any year will be but slightly more

than that of a regular Twenty-year Endowment at a corresponding age and, of course, the final return will bear a considerably smaller ratio to the premiums paid.

A few calculations, made with the aid of the rate book, will indicate that insurance on the joint forms is proportionally much more expensive than if single policies are taken. This, in conjunction with the difficulties of adjustment in case of partnership dissolution, for instance, the cancellation of insurance following payment of a claim, the increased cost of insurance when it has to be taken out afresh under such circumstances, and the possibility of its being unobtainable, make joint policies undesirable. Like Term insurance, they should be resorted to only as a matter of necessity, that is to say, when the insuring concern cannot afford the outlay for single contracts.

As illustrative of the pitfalls to which concerns may be subjected by the illogical tendency of agents to recommend joint insur-

ance, I will cite a case which came under my observation a few years ago.

A corporation had urgent need of insurance upon the life of its vice-president. To a much less extent it desired to cover the life of a younger officer. At the suggestion of the agent who handled the case a joint policy was taken out. Six years later the less valuable officer was killed and the insurance on the other, for which the need had increased in the meanwhile, became extinct. An application for new insurance disclosed the fact that the vice-president's health had become impaired. After much trouble an under-average policy upon an Endowment form, at his advanced age, was effected. Bad as it was, the outcome in this case might have been worse.

Forms for Individual Business Insurance

In this class of business there is a greater range of suitable forms. As a rule, the particular kind of policy recommended should

be determined by the immediate purpose in view, but it is quite reasonable for the insured to provide for a secondary purpose such as provision for his old age. Frequently an individual is, or appears to be, actuated by mere whim in making his selection and it is never wise to make a strong attempt to dissuade him. I once nearly lost a good-sized application by excessive zeal in the interest of my prospect.

I was presenting a proposition for $25,000 Ordinary Life to the president of a steamship line for the purpose of covering a personal liability. He suddenly asked me what a Twenty-year Endowment, with a similar tontine period, would cost at his age—57. I immediately broke into an earnest condemnation of the idea and seriously offended him by doing so. Fortunately I retrieved the situation by calling his attention to the fact that in trying to divert him from the payment of a much larger premium than I had suggested, I was clearly acting against

my own interest and entirely in his. The policy was issued on the plan selected by him and the event indicated that he had a very fair idea of what he was doing, for he matured the contract with splendid returns.

Insurance taken in connection with a mortgage may be designed merely to discharge it in the event of death, or it may be designed to pay it off at the end of a certain period. In the former case, a Term or Ordinary Life policy would be the proper form and in the latter case, a short term Endowment. This is, in effect, discharging a mortgage by instalments with a guarantee that death shall complete the transaction. Put in this way the proposition will prove attractive to many persons, especially prosperous farmers and ranchers.

When life insurance is taken by the capitalist and the man of affairs, as business protection, the principle which applies to corporations should prevail. That is to say, the protection should be secured at the

lowest possible outlay, consistent with permanency.

The man of means who desires to make provisions for the inheritance taxes or to create a fund for the settlement of his estate, can best accomplish the object, as a rule, by carrying Ordinary Life insurance. But, let us consider the case of a capitalist speculating in oil properties, let us say, and desiring to fortify his estate with ready cash in case of his premature death. It is quite possible that he contemplates retiring in ten or fifteen years. If so, a short term Endowment would probably appeal to him.

It is well to look for a secondary purpose when dealing with individuals or concerns. Your proposition is, of course, more forceful when supported by a double motive.

I once had under negotiation a policy on the life of the head of a firm in favor of the junior partners, who were considerably younger. The specific purpose was to purchase the senior's interest in the business at

his death. In the course of conversation he intimated that he would like to retire in ten years' time. This furnished me with a double motive which closed what had been a doubtful case. The proposal to create through a life insurance policy a sinking fund for the purpose of retiring the head of the concern appealed strongly to the other members and a Ten-year Endowment was placed.

CHAPTER V

SELLING BUSINESS INSURANCE

In large measure the methods to be followed in working Business Insurance are similar to those which are successfully employed in selling personal life insurance. We shall consider only variations.

It will have been inferred from what has already been said that the preparation is highly important. This is especially so in the larger cases, not only because of the magnitude of the interest involved, but also because of the difficulties that usually attend the launching of the negotiations.

Officers of corporations and heads of substantial firms are busy men who cannot easily be approached by a stranger in office hours. Methods of securing a hearing will not be discussed here. I have treated the subject

in "Efficiency" and "Practical Pointers." What I wish to emphasize at present is the necessity of having a sound, logical proposition to present. The desire to write Business Insurance for a corporation is not sufficient ground for an interview with its president, nor is a hazy idea that the concern should carry it, a better pretext. You cannot ask him to supply you with information on which to frame an initial proposition, nor can you hope to interest him with general arguments for Business Insurance. You must put up a concrete proposal that logically applies to his corporation. And this can only be done by getting pertinent facts beforehand. You may spend a great deal of time and labor in acquiring the information you need. But I strongly advise you not to seek an interview until you have secured it and digested it.

I consider preparation for a canvass of the utmost importance in all cases of life insurance, but especially so where large

amounts of Business Insurance are involved. I have found it profitable to spend the best part of two or three weeks in preparing for a case of this sort. Having secured all the information possible about the concern you have in view and the men with whom you will have to deal, consider it carefully and formulate a plan consistent with the interests of your prospect, regardless of your own. If the circumstances warrant you in recommending Term insurance or a joint policy, frame your proposition accordingly. Your position is greatly strengthened by the consciousness that you are recommending what you sincerely believe to be the best plan for your prospect and your chances of success in competition are increased by your doing so.

Your arguments should be critically examined and rehearsed until you are satisfied with their soundness and your ability to state them clearly and succintly. Do not let your desire for the business blind you to

weak spots. You must ultimately submit your conclusions to men who are probably deeper thinkers than yourself and better versed in business principles. This in itself is sufficient reason for painstaking preparation and for reducing your proposition to a simple form.

I have found it well worth while to acquire some familiarity with the general features and methods of the branch of finance or industry to which belonged the concern I had in prospect. In more than one instance such knowledge has influenced the formulation of my proposition in important respects. Of course, there is a great advantage in your negotiation to be able to display some degree of familiarity with the business in which your prospects are engaged.

As general preparation for writing large cases of Business Insurance, a study of corporation finance, as well as the law of partnership, bankruptcy and credits, is to be recommended.

Form letters may be effectively employed to originate Business Insurance. In the appendix are two sets that have been extensively used with marked success.

After consideration it has been deemed inadvisable to include material in this book, showing testimonials in favor of Business Insurance and list, of insured, because every day sees some concern of prominence availing itself of the protection afforded by Business Insurance, whilst testimony to its value is almost as frequently expressed by leading financiers and men of affairs. The agent may find a constant supply of the data in question by scanning the columns of the life-insurance pages of any up-to-date insurance journal.

How to Work Corporation Insurance

It is highly improbable that the most carefully prepared proposition will prove flawless. It should, however, be sufficiently

logical and applicable to the concern you are approaching to interest your auditor and awaken in him a realization of the need for such protection. If it accomplishes this, you will have no difficulty in getting all further information necessary to round out your proposal and securing an appointment for the statement of it in completed form. This is not in the least likely to finish the negotiation in a large case. There will be several other interviews, in all probability, but the first or second should result in gaining a firm footing for you.

Having started a case propitiously, success will depend largely on observing certain rules. *1. Exercise all the tact you can command. 2. Don't talk about the case to any but persons directly concerned. 3. Keep your prospect's interests uppermost in mind. 4. Limit your calls to necessity and make every discussion advance you toward the desired climax.*

Meanwhile be on the *qui vive* for personal

insurance in connection with the business deal. As a rule, it is advisable not to work on the former until after the main negotiation has been disposed of, but on occasion the placing of an individual policy with one of the parties interested in your proposition for Business Insurance will facilitate the consummation of it.

No rule can be laid down as to the member of a corporation who should first be approached with your proposition, except that common logic will suggest the person who has the greatest interest at stake or who is likely to exert the strongest influence in the concern's consideration of the matter. I have in mind at least one case where a stockholder, who held no official position in the corporation, presented the most favorable point for preliminary approach.

Whatever the decision of your judgment in this respect, it is safe to say that you should almost always turn your attention to one person at the outset and not try to

interest several at the same time. (Two equal partners present a somewhat different situation. You must be careful to avoid offending one by taking an important business matter up solely with the other.)

Throughout the negotiations, discussions with several persons will generally be difficult and often detrimental to your endeavor. Appearance before a board of directors or a committee is dangerous. When such a body has been in session to *decide* on my proposal, I have generally arranged to be in communication with it, either over a telephone or waiting in an adjoining room, *for the sole purpose of furnishing any information desired.* At this stage of the negotiation your last *argument* should have been made and so thoroughly absorbed by, at least, one member of the board or committee that he may be counted on to explain and champion your proposition.

It should hardly be necessary to state that in order to write Business Insurance with

any degree of success you ought to be primed with a list of prominent concerns that carry it, concrete illustrations of its efficacy in a variety of ways and opinions of leading bankers and business men on the subject.

How to Work Co-Partnership Insurance

In general, the methods of working Corporation Insurance will apply to large firms. Here we are considering small ones, and the suggestions offered are, for the most part, also applicable to the one-man business of the modest kind.

Over 90 per cent. of business failures are of concerns capitalized for not more than $5000. Of course, these small businesses are much more numerous than the larger ones, but their existence is also essentially more precarious.

Here is a tremendous field susceptible of cultivation by the agent whose capacity is limited to the writing of moderate-sized

applications. Success in it does not require the technical knowledge which is essential to success in working Corporation Insurance.

Strangely enough, thousands of agents are constantly tramping over the ground without realizing the potential yield from this field. Daily they solicit members of little concerns for personal life insurance without giving a thought to the possibility of interesting them in Business Insurance. It is good practice to make a rule of sounding a prospect on both points.

Young men, in particular, are often so obsessed with the ambition for business success that they sacrifice the interests of their families for the promotion of the business. In many instances, where they will not divert a dollar for personal protection, they can be readily induced to take Co-partnership Insurance by a showing of the risk of business disaster involved in failure to protect the firm against the consequences of the untimely death of one of its members.

In such cases—and in practically all cases of Co-partnership Insurance—the important thing is to show the close connection between Business Insurance and the welfare of the home. This affords you a strong double motive. In very many instances it will secure an application when the canvass for purely personal insurance would fail.

Corporation Insurance is a cold-blooded business transaction. On the other hand, some degree of sentiment may enter into the considerations of Co-partnership Insurance. The canvass of the latter will be largely along the lines followed in selling ordinary personal insurance.

The purposes of Co-partnership Insurance are frequently best served by a subsidiary agreement, covering the specific disposition of the indemnity to be derived from the policy. For example, two partners are insured in favor of the joint business, with a written agreement that the insurance money paid on the death of either shall be devoted

to the purchase of his interest. The agreement will probably provide for the basis of settlement and may contain other conditions. Occasionally it is advisable to have the signatures of wives to such documents.

It is well for the agent to examine such agreements in order to make sure that they are quite consistent with the terms and benefits of the policy contract and, especially that they do not impair the assignability of it. No attempt should be made to include such extra provisions—except in the case of income settlements—in the beneficiary clause of the application. No wide-awake company will accept an application of the kind, because by doing so it would make itself a party to the subsidiary agreement.

Arguments for employment in presenting all kinds of Business Insurance propositions may readily be adduced from the illustrative cases that have been offered in foregoing chapters.

Business Insurance on Grouped Lives

If we disregard a few isolated transactions of a similar character which took place at widely separated times in the last century, the first policy of group insurance was issued on the employés of Montgomery, Ward and Company in 1911. During the intervening years there has been a steady growth in this branch of the business. Probably about 1000 group policies are in force and the number is rapidly increasing, the year 1917 having seen many striking additions to the concerns carrying this class of coverage. It is beyond doubt that group insurance has become a permanent institution and that it will continue to grow in favor with corporations employing large numbers of persons. Until its features and methods are standardized and insurance laws are adjusted to its peculiar conditions, this form of life insurance must be more or less speculative and none but companies with

strong surplus funds are likely to write it.

It is too early to obtain conclusive data as to the results of accepting risks without medical examination, but the experience up to the present is that the mortality among large insured groups is about the same as that indicated in an ultimate table of selected lives. This is what might be expected from the careful inspection made by the insurance companies and the tendency of latter-day corporations to consider the physical condition of applicants for employment and to safeguard the health of employés.

One hundred lives is the usual minimum and some form of medical test or examination is generally applied to any smaller number. Additions to an insured group are invariably subjected to medical examination. The character of the occupation, the conditions under which the employés work and live, as well as the welfare control of the employer, are influencing factors in the consideration

of an application. Speculative insurance is eliminated by placing a limit on the amount of each individual risk. The protection is terminable when a member of a group voluntarily leaves the service of the employer of it, or is discharged. Newly engaged persons may be included in an insured group and the policy usually stipulates that the risks involved shall not be allowed to fall below a certain number. Obviously, a number of economies and advantages are incident to group insurance which are not enjoyed by the ordinary business of life insurance.

Premiums are arbitrary and empirical, varying with different companies. They are collected monthly to facilitate adjustment to changes in the personnel of the group. The form of insurance, with rare exceptions, is yearly renewable term. Theoretically this necessitates periodical increase of premium, but it appears that in actual practice the normal changes among employés of a

typical concern tend to keep the average age fairly constant. The cost of the protection, which is borne by the employer solely or jointly with the employés, ranges from 1 to 1½ per cent. on the sum at risk. As a rule, one year's pay is the maximum amount for which an individual is insured.

Group Insurance seems to offer a fruitful field of endeavor to the agent, although the commissions paid upon it are rarely more than one-third of the regular rates. The chief source of profit lies in the favorable opportunity opened up for writing regular policies upon the lives of individuals insured in a group.

It is unnecessary to deal with the methods of working group insurance, for the practice of the companies which write that class of business is to have it transacted by agents sent out from the home offices and especially educated in the peculiar technicalities of this newest form of Business Insurance.

CHAPTER VI

BUSINESS INSURANCE AND CREDITS

It may be well to start with a few definitions and explanations.[1]

Credit "is the power to obtain goods or service by giving a promise to pay money on demand or at a specified date in the future. *Credit is property.*

Personal Credit is credit used in exchange for goods for consumption, and depends for its value on the character and capacity of an individual who may not be in business.

Mercantile Credit is credit used to facilitate the exchange of goods from the time they are taken as raw material until they get into the hands of the retailer.

Banking Credit consists of loans, deposits and discounts.

[1] Derived from Gerstenburg's *Corporation Finance.*

Investment Credit consists of the promises of corporations and sovereign bodies to repay sums of money some time in the far future (bonds) or of the right of repayment upon the dissolution of the corporation (stock).

Business Insurance and Bank Credit

The value of life insurance in reinforcing the security for bank loans is of only comparatively recent recognition, but it is fast gaining general appreciation. The greatest amount of losses in the banking business is traceable to injudicious loans. Until late years it was common practice to overlook the hazard of death in calculating the basis of bank credit. Collateral, the value of which would be impaired by death, was frequently accepted on a par with collateral that was not liable to any such depreciation. Practically every banker makes the distinction now-a-days and understands that the inferior class of security can be brought to a parity with

the other class by reinforcing the former with life insurance.

Nor is this all. There is a growing tendency among country bankers to ask for life insurance in connection with small loans, even when the security affords ample coverage. This in order to avoid the unpleasant necessity of liquidation by foreclosure and because the additional protection is distinctly in the interest of the borrower.

Various kinds of security are subject to affect from death. Many illustrations have been given of typical business situations in which the contingency of death would be a factor in considering bank credit. Real estate, as a rule, is exempt from this hazard, but when its value is appreciably enhanced by management or goodwill, loans could not safely be measured by earning capacity, unless supported by the additional security of life insurance. Discounts should generally be fortified by life insurance, especially when the endorsements constitute the greater

part of the security. The death of an endorser often causes the bank serious trouble, even when it does not entail loss.

Goodwill comprises a large proportion of the assets of many a prosperous business. Sometimes this depends in great measure upon one man. In such a case his life should be insured for the purpose of strengthening and stabilizing the concern's bank credit.

The personality of the management of a successful business represents an important part—sometimes the most important part—of its assets. Credit extended to the concern should take into account the perishability of this asset.

A striking illustration of the point is furnished by the well-known house established by A. T. Stewart in New York. In the able hands of the founder the business prospered exceedingly. His successor brought it to the verge of ruin in a few years. Under the control of John Wanamaker it was as

quickly revived and is being conducted with the utmost success.

Creditors of all kinds are falling into the way of requiring life insurance to cover debts. This tendency should be encouraged by agents. In many instances the idea only needs to be advanced to induce action.

The credit forms of most Federal Reserve Banks enquire as to the life insurance carried by applicants for loans and the American Bankers' Association recommends the inclusion of a similar question in the forms of its members.

In general Business Insurance is carried to indemnify for loss by death or to provide for future liabilities. The concern which carries Business Insurance for either purpose or both, is by that much more stable than it would be without the protection, and the increased stability must operate to increase confidence and credit.

Business Insurance and the Retail Merchant's Credit

Let us consider this subject under two aspects: First, the credits extended to the retail merchant. Second, the credits extended by the retail merchant.

The chief sources from which the retail merchant secures credit are the wholesale house and the bank. The credit he enjoys is based on his integrity, his ability, his character and his financial standing. If his record and reputation in these respects are good, the extender of credit is inspired with confidence in the merchant's promises —and confidence is the mainspring of credit.

The banker in considering a loan or the credit man in considering a supply of goods will, if he be prudent and experienced, weigh these factors, not only in their present condition but also in their possible future development. The course of his deliberations will extend beyond the immediate circum-

stances of the case and carry his mind forward to a contemplation of the contingency of death. At this point a factor enters into the credit calculation which may not be susceptible of measurement by the personal qualities of the merchant. The plans and intentions of the most able and honest man, for the discharge of his obligations may be completely nullified by the sudden intervention of the grim reaper. The business which is quite solvent and prosperous may be rendered unstable by the removal of its head, with the consequent loss of valuable services and the *impairment of confidence.*

This consideration is justification for the demand on the part of the bank and the wholesale house for a margin of safety in excess of the merchant's immediate resources. It is not sufficient that they can and will meet his liabilities if all goes well. He should be required to safeguard his creditor against the result of adverse contingencies. The principle involved in this statement is uni-

versally recognized in so far as it entails protection against loss by fire. No retail merchant would expect to get credit unless he carried fire insurance. And the average chance of death is about ten times that of fire.

How is this provision to be effected? Surely not by keeping a surplus balance in the bank. The man who could afford to do that would not need credit. Not less impracticable would be the maintenance of reserve security in the form of property. Most merchants need to employ in their business all the money they can command. The only economically feasible way of creating a safety fund for the purpose of counteracting unfavorable developments growing out of the death of the debtor is through the medium of life insurance.

Now, as to the second phase of the topic:

The credits extended by the retail merchant rest, as a rule, upon the most slender basis of security. An account is opened

without any kind of guarantee that it will be settled and with but scanty information about the prospective debtor. This information is mainly relative to his responsibility and rarely takes into account what we may call the moral hazard. And yet that is decidedly important. We all know of "responsible" men who habitually evade just debts when they are able to do so. More than one prominent financier has declared that character weighed more heavily with him than financial standing in deciding on credits. And, in truth, no business transaction is sound unless it has a substructure of good faith and integrity.

I do not intend to imply that the retail credit man ignores this factor. No doubt, in considering a questionable case of credit he asks himself, Is he prudent? Is he foresighted? Is he conscientious? Has he a keen sense of moral and financial obligations?

The difficulty is to find answers to such questions. In many instances they may be

found in the results of the single inquiry: Does he carry life insurance? If not, is the merchant warranted in taking any chance with a man who fails to make provision for his family after his death and for the personal debts he may leave behind him? He may be "good" from the viewpoint of the mercantile report, but his character injects into the question a danger element which should not be ignored. It is safe to say that the man who will take advantage of his wife and children will not hesitate to take advantage of his creditors should the opportunity offer.

It is practically certain that the work of credit men would be appreciably facilitated by the inclusion of a detailed statement, in commercial reports, as well as in their own inquiry forms, of life insurance carried by applicants for credit. From such data they would frequently be able to draw inferences of value in the consideration of applications. For example, a man is reported to carry a

policy with his wife as beneficiary and another payable to his estate. Since the latter is attachable for debt, it may safely be deduced from these facts that he has made preparation for the discharge of his post-mortem obligations and is a man of generally good character. Again, the report discloses that the subject of it has borrowed to the limit on his life insurance. As that should be, and usually is, the last resort of the needy, it may generally be concluded that it indicates decidedly straightened monetary condition.

The general run of the retail merchants' accounts with customers consists of comparatively small units, but these, in the aggregate, often represent the bulk of his dealings. A reduction by any appreciable percentage of his bad debts would be calculated to give him a pronounced advantage in competition. Such a reduction can, I firmly believe, be effected in many establishments by the adoption of the suggested system of inquiry and reports.

Business Insurance and the Farmer's Credit

Despite the legislation of recent years, designed to afford relief to the farmer, he is still heavily handicapped in the matter of borrowing. This is especially true of the nearly 5,000,000 of tenant farmers in the United States.

In a discussion of this question lately, a country banker said to the writer:

"The farmer's is a one-man business, peculiarly dependent on the personal welfare of the man running it and, consequently, peculiarly liable to go wrong. What looks like a good loan, measured by dollars and cents, may be a poor one, measured by conditions. When a farmer falls ill, becomes disabled or dies, his loan generally causes trouble even though we lose nothing on it. For these reasons farm loans can never be made with the same liberality as commercial loans.

"In my opinion, no farmer should approach

his banker for a loan unless he is prepared to strengthen the security with life insurance. I may say that if he *already has life insurance* his credit is enhanced by that evidence of his prudence and foresight. I always recommend that the insurance shall include accident and sickness indemnity, as well as a disability provision. I have seen many cases of farmers being incapacitated where it would have been much better, from the business point of view, had they died."

Lacking the mortgage resource of the owner, the tenant farmer, even though he be successful, generally finds it difficult to secure the money he needs. Let us take a typical case, such as may be found numerously in any agricultural county. A farmer has a ten-year lease, with eight years to run, on 100 acres of good land. He has put all his capital into the improvement of 50 acres, has all necessary equipment for working it and is making it yield a fair profit. He seeks a loan in order to place the other half of his

holding under cultivation. From a farming point of view the proposition is a sound one. The man has proved his ability and his integrity is not in question. His only security is his general assets and, perhaps, some ledger credits. In a parallel situation the merchant or manufacturer might not experience any difficulty in raising a substantial sum, but the farmer could not do so.

The farmer borrows frequently, (in many instances twice a year with regularity,) on sixty, or ninety-day notes. His domestic insurance ought not to be assigned to the bank in these transactions. A special policy of Business Insurance, payable to his estate, should be carried for the purpose and supplemented with accident and sickness insurance.

That there is a large field for systematic work in this connection may be inferred from the fact that in some sections the banks require life insurance with practically all farm loans. The farmer and banker should both be educated in the matter and the

agent should work in direct coöperation with the latter.

The short-term Endowment is to be recommended for the purpose of covering mortgages and forming a sinking fund to discharge them. It is also a desirable form for the man in the situation of the tenant farmer described above. Such a policy constitutes a savings deposit which constantly increases his borrowing capacity and gradually creates capital for the extension of his business.

There is a strong canvassing argument, of general application to borrowers, in the foregoing statement of the banker that a man approaching him for a loan with a life insurance policy *in his possession* establishes a certain basis of credit by that fact alone.

APPENDIX

FORM LETTERS FOR BUSINESS INSURANCE

THE form letter which has the appearance and character of a circular is of little value.

I have each of the business insurance letters typed separately and signed by hand. In order to increase the impression of individual communications, they are so phrased that the name of the corporation or firm addressed may be inserted without change in the general wording.

This method involves considerable time and trouble, but my experience is that one hundred letters prepared in this manner will produce greater results than one thousand produced by the multigraph.

The series of letters is adopted on the principle that governs homeopathy. The

small doses, delivered at intervals of one or two days, are readily swallowed and easily digested. The cumulative effect, with all its well-known advantages is secured.

A return card and return UNSTAMPED envelope are enclosed with each letter and the leaflet is sent with the last.

No more than five per cent. of replies should be looked for. The greater proportion of results will accrue from the canvass, for which the letters are an excellent introduction. This should be commenced three days after the last letter of the series is mailed, with a view to seeing every concern that has received it as soon as possible.

A good man, following one hundred letters of this kind, judiciously addressed, and mailed in relays of suitable number can hardly fail to secure ten live prospects.

It may be added that it is advisable for several reasons, to select the names for list from concerns in the same line of business.

CORPORATION LETTERS

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

Without having sufficient knowledge of the affairs of the Fulton Engine Works to enable me to speak with positiveness, I will venture the suggestion that commercial life insurance would strengthen its business and facilitate its operation.

The specific purposes to which life insurance may be applied in the conduct of a corporation are well-nigh endless. It is the most economical and practical way of providing against adverse contingencies. This it does by furnishing indemnity for death and by holding an ever-ready reserve fund at the command of the company.

Corporation Insurance is the Business Buttress that maintains stability in time of stress.

Very truly yours,

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

Doubtless the Fulton Engine Works, is insured against loss by fire, accidents to workmen, and other casualties. Would not the death of one of its officers work greater injury to the corporation than any of the more reparable contingencies for which it has made provision?

Commercial insurance, taken with the primary object of securing indemnity for death, is not a latent factor in the meanwhile. Its yearly increasing cash value creates a reserve fund, which may be immediately drawn upon in time of need.

During the financial stringency of 1907, business houses borrowed $75,000,000, on the collateral security of their policies, without publicity and at a low rate of interest.

Very truly yours,

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

Permit me to suggest a few directions in which commercial life insurance might be serviceable to the Fulton Engine Works.

As indemnity for the loss by death of an officer upon whom, by reason of his business talent, or technical knowledge, the prosperity of the company depends;

Or, an officer upon whom, on account of his executive ability or financial standing, the banking credit of the company rests;

Or, an employé whose position, in the event of his death, it would be unusually difficult to refill.

As a sinking fund for the retirement of bonds, or the discharge of other future liabilities; to forestall the impairment of plant and the deterioration of movable property; to strengthen the company under conditions resulting from termination of patents, leases and various long-time contracts.

Very truly yours,

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

Commercial life insurance is both a conserving and a developing agent.

The conserving quality of corporation insurance is not limited to its function of indemnifying for loss. The mercantile and banking credit of a concern is enhanced by it. Many a company has been enabled to survive financial stress by loans against its life insurance policies.

Commercial insurance acts as a developing agent by furnishing money to extend the scope of the business, to enlarge the plant, to increase the advertising, and for many other purposes.

Very truly yours,

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

An officer of one of our leading mercantile agencies has said: "During the past decade corporation and partnership insurance would have saved more than one million employers from sinking back into the ranks of the employed."

Commercial insurance involves domestic insurance. Upon the prosperity of a business often depends the preservation of the homes of employers, creditors and employés.

There are very few corporations, but have at least one weak spot which may be buttressed by life insurance.

Very truly yours,

MR. J. P. MCALLISTER, *Pres.*
FULTON ENGINE WORKS,
LOS ANGELES, CAL.

Dear Sir:

I have recently addressed to you several letters, briefly calling attention to a few of the many points of advantage in business insurance.

The enclosed leaflet, whilst it makes no pretence of exhausting the subject, will give you some additional ideas on it.

My time is freely at your service for consultation in this matter, without the creation of the slightest obligation on your part.

Very truly yours,

FIRM LETTERS

MESSRS. LOUNSBERRY & HARRIS,
LOS ANGELES, CAL.

Dear Sirs:

If you could take into your business an associate who would not ask for a voice in the management,—who would guarantee to indemnify you for the death of any member of your firm,—who would stand ready to lend you money in time of need,—who would hold a constantly growing fund to your credit as a reserve,—would you embrace the offer?

BUSINESS INSURANCE is the SILENT PARTNER that will do this and more.

Very truly yours,

MESSRS. LOUNSBERRY & HARRIS,
LOS ANGELES, CAL.

Dear Sirs:

Doubtless you carry fire insurance—possibly employers' liability, burglar and other forms of protection.

Have you provided for the death of one of your members? Would not this be the most serious loss that could befall the firm of Lounsberry and Harris?

Business insurance will enable you to meet the claims of a deceased partner's estate without drawing on working capital. It will act as a shock absorber in minimizing the effects of his death and as an aid in repairing your organization.

Very truly yours,

MESSRS. LOUNSBERRY & HARRIS,
LOS ANGELES, CAL.

Dear Sirs:

Partnership insurance, whilst a charge against the business, is also an asset of it.

Policies issued to "Lounsberry & Harris" would have yearly increasing cash values, making a tangible reserve and a fund immediately available in emergency.

During the last financial panic $75,000,000 were borrowed by business houses on the collateral security of their policies.

Very truly yours,

MESSRS. LOUNSBERRY & HARRIS,
LOS ANGELES, CAL.

Dear Sirs:

Business insurance establishes a permanent reserve, enhances credit, and creates a reputation for careful methods.

Commercial agencies include business insurance in their reports and banks take account of it in their dealings.

The treasurer and credit man of one of the largest wholesale houses in the country has said: "In this day of commercial operations on narrow margins, any serious reverse, and particularly death, is apt to result in failure, or liquidation. Life insurance will soon be required of all concerns asking for extensive credit."

Very truly yours,

MESSRS. LOUNSBERRY & HARRIS,
LOS ANGELES, CAL.

Dear Sirs:

Business insurance has a wider scope than any other form. It protects the members of a firm, its creditors, and its employes.

But it also embraces domestic insurance, for none can be more concerned than a man's family in the stability of his business and the ready settlement of his interests at death.

Lounsberry and Harris will certainly be affected at some time by the death of one of its members. The prudent policy which regulates your business demands that you provide for this eventuality as you have provided for less probable or important contingencies.

Very truly yours,